

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* BRONSON CITY	County* BRANCH	Type* CITY	MuniCode* 12-2-010
Opinion Date-Use Calendar* Sep 10, 2008	Audit Submitted-Use Calendar* Nov 26, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 1,110,228.00
General Fund Expenditure: ?	\$ 969,872.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance: ?	\$ 725,459.00
Governmental Activities Long-Term Debt (see instructions): ?	\$ 105,000.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Michael	Last Name* Wilson	Ten Digit License Number* 1101017570		
CPA Street Address* 127 W Chicago	City* Sturgis	State* MI	Zip Code* 49091	Telephone* +1 (269) 651-3228
CPA Firm Name* Norman & Paulsen PC	Unit's Street Address* 141 South Matteson	Unit's City* Bronson	Unit's Zip* 49028	

CITY OF BRONSON, MICHIGAN  
FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
JUNE 30, 2008

**CITY OF BRONSON**  
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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Members of the City Council  
City of Bronson, Michigan

Norman & Paulsen, P.C.

Certified Public Accountants

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Sturgis, MI 49091  
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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bronson management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2008, on our consideration of the City of Bronson internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Jerrold T. Norman (1941-1982)

September 10, 2008

*Norman & Paulsen, P.C.*

**CITY OF BRONSON  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Bronson financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

**Financial Highlights**

The City's overall financial position increased by \$177,020 during the fiscal year ended June 30, 2008, which represents 2.61 percent of the net asset position at the beginning of the year. Included in the City's total net assets of \$6,951,828 are the Sewage Disposal System Fund net assets of \$3,220,164 and the Water Supply System Fund net assets of \$1,385,841. The Sewage Disposal System's net assets decreased by \$27,534 and the Water Supply System's net assets increased by \$120,849.

The City's Governmental Funds reflected a total fund balance at June 30, 2008 of \$1,077,305, which was an increase of \$45,853 from the prior year end.

The total Governmental Fund expenditures for the year ended June 30, 2008, amounted to \$1,269,665, of which \$549,430 (43 percent) was for public safety and \$392,764 (31 percent) was for public works and streets.

**Using This Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)				
	Governmental Funds		Enterprise Funds	
	2008	2007	2008	2007
Assets	\$ 1,131	\$ 1,068	\$ 5,275	\$ 5,235
Liabilities	54	36	669	722
Fund Equity				
Invested in capital assets, net of related debt	-	-	2,779	2,841
Retained Earnings				
Restricted	-	-	80	78
Unreserved	-	-	1,747	1,594
Fund Balances				
Reserved	19	22	-	-
Unreserved	<u>1,058</u>	<u>1,010</u>	<u>-</u>	<u>-</u>
Total Fund Equity	<u>\$ 1,077</u>	<u>\$ 1,032</u>	<u>\$ 4,606</u>	<u>\$ 4,513</u>

# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 4.3 percent or \$45,853 from a year ago. In contrast the prior years governmental fund equity increased by 4.7 percent or \$46,161.

The City's enterprise fund equity increased by 2.1 percent or \$93,315 from a year ago. In contrast the prior years enterprise fund equity increased by 2.2 percent or \$98,496.

The following table shows, in a condensed format, the net assets of the current year compared to the prior year as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Current and other assets	\$ 1,231	\$ 1,106	\$ 1,848	\$ 1,694
Capital assets	<u>1,261</u>	<u>1,318</u>	<u>3,427</u>	<u>3,541</u>
Total assets	2,492	2,424	5,275	5,235
Long-term debt outstanding	105	120	648	700
Other liabilities	<u>41</u>	<u>42</u>	<u>21</u>	<u>22</u>
Total liabilities	146	162	669	722
Net assets				
Invested in capital assets, net of related debt	1,186	1,228	2,779	2,841
Restricted	20	21	80	78
Unrestricted	<u>1,140</u>	<u>1,013</u>	<u>1,747</u>	<u>1,594</u>
Total net assets	<u>\$ 2,346</u>	<u>\$ 2,262</u>	<u>\$ 4,606</u>	<u>\$ 4,513</u>



## CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2008	2007	2008	2007
Revenue				
Property taxes	\$ 707	\$ 652	\$ 36	\$ 36
Licenses and permits	1	1	-	-
Intergovernmental	479	493	-	-
Charges for services	26	27	556	550
Fines and forfeits	23	25	-	-
Other	<u>80</u>	<u>71</u>	<u>88</u>	<u>98</u>
Total revenue	1,316	1,269	680	684
Program expenses				
General government	204	207	-	-
Public safety	549	541	-	-
Public works	165	160	-	-
Parks and recreation	52	57	-	-
Highways and streets	228	220	-	-
Community development	52	17	-	-
Debt service	20	21	-	-
Sewer system	-	-	263	251
Water system	-	-	121	133
Depreciation	-	-	167	163
Interest expense	<u>-</u>	<u>-</u>	<u>36</u>	<u>39</u>
Total expenses	<u>1,270</u>	<u>1,223</u>	<u>587</u>	<u>586</u>
Excess	<u>\$ 46</u>	<u>\$ 46</u>	<u>\$ 93</u>	<u>\$ 98</u>

# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current year compared to the prior year as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Revenues				
Program revenues				
Charges for services\$	67	\$ 68	\$ 556	\$ 550
Operating grants and contributions	178	181	-	-
Capital grants and contributions	-	-	-	-
General revenues				
Property taxes	707	652	36	36
State shared revenues	301	313	-	-
Unrestricted investment earnings	47	54	63	78
Gain (loss) on sale	7	-	-	-
Miscellaneous	32	18	25	20
Total revenues	1,339	1,286	680	684
Expenses				
General government	383	369	-	-
Public safety	480	502	-	-
Public works	343	334	-	-
Parks and recreation	44	49	-	-
Community development	-	2	-	-
Interest on long-term debt	5	5	-	-
Sewer system	-	-	427	412
Water system	-	-	160	174
Total expenses	1,255	1,261	587	586
Change in net assets	\$ 84	\$ 25	\$ 93	\$ 98

### The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2008 include the General Fund.

The General fund pays for most of the City's governmental services. The primary services include police and fire services, and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

## **CITY OF BRONSON**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **General Fund Budgetary Highlights**

As shown in the required supplemental information, the City budgeted a decrease of \$-0- in the original budget and an increase of \$72,699 in the amended budget. Actual operating results ended up as an increase of \$88,356.

The actual results ended the fiscal year within \$15,657 of the amended budget.

#### **Capital Assets and Debt Administration**

During the year ended June 30, 2008, the total capital assets of the City increased by \$98,950. This amount consisted of \$19,912 for new roofs, \$10,027 for police equipment and \$15,870 for equipment purchased in the Motor Pool Fund and \$53,141 for sewer improvements and equipment in the Wastewater System Fund.

During the year ended June 30, 2008, the City incurred no additional long-term debt borrowings and made principal payments of \$67,000. Total debt obligations at June 30, 2008, amounted to \$723,000.

#### **Economic Factors and Next Year's Budgets and Rates**

The adopted budget for the next fiscal year ending June 30, 2009 is reflective of the current poor economy. The 2008-2009 budget was adopted with a \$200,000 deficit. The City has entered into a sawn maintenance contract with a private vendor. The Camp Branch laborers that the State had canceled were made available after the contract was signed. The City Department of Public Works had been operating with only a four man crew following the retirement of an employee in September 2007. In July 2008, another employee was hired.

Act 51 revenue continues to fall short of the funding necessary for road maintenance. The General Fund will subsidize both Major Streets and Local Streets \$72,773 and \$93,027, respectively. A major project scheduled for the spring of 2009 is the complete tear out and replacement of Fremont Street from Washington Street to Matilda Street. New curb and gutter, storm sewers and water mains are part of the \$221,300 project.

Water and Sewer rates continue to be revised annually to reflect the required cash flow to run an effective water supply and wastewater treatment system. New rates go into effect on July 1 and will be reflected on bills received in September. The rate increase for 2008-2009 is about \$5.60 for a resident with a 3/4 inch service. The City has not been able to acquire the land desired for installation of a third municipal well. With the recent favorable ISO rating for the Bronson Fire Department, the well location has been delayed and the money is now being directed toward replacing the existing 4 inch water mains with 8 inch water mains. The State has determined the 4 inch water mains are not sufficient. The Fremont Street project is part of this project.

## **CITY OF BRONSON**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Economic Factors and Next Year's Budgets and Rates - Continued**

The proposed \$25,000 addition to the Fire Department building in fiscal year 2007-2008 did not materialize as bids for the attached structure came in at about \$70,000. The project has been changed and a 24' x 24' garage will be built in the southwest corner of the property. This project will cost about \$25,000 which was what was originally approved. The building is required to house the DNR grass rig that will not fit into the fire building. A rescue vehicle was recently acquired that requires the space.

The General Fund will also make a payment of \$74,600 into the Fire Sinking Fund. The pumper truck will need to be replaced in fiscal year 2011-2012 with an estimated cost of \$350,000.

The Cemetery continues to need financial help. We are continuing to fund the deficit from the Cemetery Perpetual Care Fund. Rates for grave openings and lot sales will be reviewed later in the year. There were 13 burials in calendar year 2007 compared to an average of 20 per year. The rate appears to be lower for 2008 also.

City Staff are dedicated to maintaining a high level of service for our citizens. We will continue to do our best while working with a smaller revenue stream.

#### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City office.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF BRONSON**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
<b>ASSETS</b>			
Cash and investments	\$ 1,093,346	\$ 1,670,782	\$ 2,764,128
Receivables, net	66,973	88,167	155,140
Internal balances	-	-	-
Prepaid and other assets	32,934	9,230	42,164
Restricted assets	-	79,796	79,796
Long-term receivables	37,740	-	37,740
Capital assets - net	<u>1,260,757</u>	<u>3,427,194</u>	<u>4,687,951</u>
Total assets	2,491,750	5,275,169	7,766,919
<b>LIABILITIES</b>			
Accounts payable	6,185	-	6,185
Accrued and other liabilities	34,742	21,164	55,906
Debt obligations:			
Due within one year	15,000	52,000	67,000
Due in more than one year	60,000	596,000	656,000
Compensated absences	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total liabilities	<u>145,927</u>	<u>669,164</u>	<u>815,091</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,185,757	2,779,194	3,964,951
Restricted:			
Debt service	-	79,796	79,796
Other purposes	19,536	-	19,536
Unrestricted	<u>1,140,530</u>	<u>1,747,015</u>	<u>2,887,545</u>
Total net assets	<u>\$ 2,345,823</u>	<u>\$ 4,606,005</u>	<u>\$ 6,951,828</u>

See accompanying notes to financial statements



**CITY OF BRONSON**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 383,464	\$ 41,636	\$ -	\$ -
Public safety	480,308	22,722	1,945	-
Public works	343,453	-	176,126	-
Parks and recreation	43,580	1,165	-	-
Community development	17	1,420	-	-
Interest on long-term debt	<u>4,552</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	1,255,374	66,943	178,071	-
Business-type activities:				
Sanitary sewer	426,508	331,732	-	-
Water	<u>159,895</u>	<u>223,942</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>586,403</u>	<u>555,674</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 1,841,777</u>	<u>\$ 622,617</u>	<u>\$ 178,071</u>	<u>\$ -</u>

General revenues:  
  Property taxes  
  State shared revenues  
  Unrestricted investment earnings  
  Gain (Loss) on disposal of assets  
  Miscellaneous

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (341,828)	\$ -	\$ (341,828)
(455,641)	-	(455,641)
(167,327)	-	(167,327)
(42,415)	-	(42,415)
1,403	-	1,403
<u>(4,552)</u>	<u>-</u>	<u>(4,552)</u>
 (1,010,360)	 -	 (1,010,360)
 -	 (94,776)	 (94,776)
<u>-</u>	<u>64,047</u>	<u>64,047</u>
 -	 (30,729)	 (30,729)
 (1,010,360)	 (30,729)	 (1,041,089)
 707,392	 35,870	 743,262
300,451	-	300,451
47,138	63,321	110,459
7,156	-	7,156
<u>31,928</u>	<u>24,853</u>	<u>56,781</u>
<u>1,094,065</u>	<u>124,044</u>	<u>1,218,109</u>
 83,705	 93,315	 177,020
<u>2,262,118</u>	<u>4,512,690</u>	<u>6,774,808</u>
<u>\$ 2,345,823</u>	<u>\$ 4,606,005</u>	<u>\$ 6,951,828</u>

## FUND FINANCIAL STATEMENTS

CITY OF BRONSON

GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 590,931	\$ 292,385	\$ 883,316
Investments	85,344	45,512	130,856
Accounts receivable	3,246	347	3,593
Due from other funds	18,444	-	18,444
Due from other governments	35,733	27,545	63,278
Prepaid and other assets	<u>25,401</u>	<u>6,536</u>	<u>31,937</u>
Total assets	<u>\$ 759,099</u>	<u>\$ 372,325</u>	<u>\$ 1,131,424</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 6,185	\$ -	\$ 6,185
Accrued and other liabilities	27,455	2,779	30,234
Due to other funds	<u>-</u>	<u>17,700</u>	<u>17,700</u>
Total liabilities	33,640	20,479	54,119
FUND BALANCE			
Reserved for public safety	19,536	-	19,536
Unreserved - undesignated	<u>705,923</u>	<u>351,846</u>	<u>1,057,769</u>
Total Fund balance	<u>725,459</u>	<u>351,846</u>	<u>1,077,305</u>
Total liabilities and fund balance	<u>\$ 759,099</u>	<u>\$ 372,325</u>	<u>\$ 1,131,424</u>

See accompanying notes to financial statements

CITY OF BRONSON  
GOVERNMENTAL FUNDS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2008

Total governmental fund balances \$ 1,077,305

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities  
are not financial resources and therefore are  
not reported in the funds.

Governmental capital assets	\$ 2,062,516	
Less accumulated depreciation	<u>(986,772)</u>	1,075,744

Certain receivables are not due and collectible  
in the current period and therefore are not  
reported in the funds 37,740

Certain liabilities are not due and payable in  
the current period and therefore are not  
reported in the funds.

Bonds payable	(75,000)
Compensated absences	(30,000)

Internal service funds are used by management  
to charge the costs of certain activities to  
individual funds. The assets and liabilities  
of the internal service funds are reported with  
governmental activities.

Net assets of the internal service funds	<u>260,034</u>
--	----------------

Net assets of governmental activities	<u><u>\$ 2,345,823</u></u>
---------------------------------------	----------------------------

See accompanying notes to financial statements

CITY OF BRONSON  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 707,392	\$ -	\$ 707,392
Licenses and permits	142	-	142
Intergovernmental	310,343	168,178	478,521
Charges for services	20,963	5,298	26,261
Fines and forfeits	22,722	-	22,722
Miscellaneous	<u>48,666</u>	<u>31,814</u>	<u>80,480</u>
Total revenues	1,110,228	205,290	1,315,518
EXPENDITURES			
General government	203,734	-	203,734
Public safety	549,430	-	549,430
Public works	164,771	-	164,771
Parks and recreation	51,937	-	51,937
Highways and streets	-	227,993	227,993
Community enrichment, development and services	-	51,848	51,848
Debt service	<u>-</u>	<u>19,952</u>	<u>19,952</u>
Total expenditures	<u>969,872</u>	<u>299,793</u>	<u>1,269,665</u>
Excess (deficiency) of revenues over expenditures	140,356	(94,503)	45,853
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	92,500	92,500
Operating transfers out	<u>(52,000)</u>	<u>(40,500)</u>	<u>(92,500)</u>
Total other financing sources (uses)	<u>(52,000)</u>	<u>52,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	88,356	(42,503)	45,853
FUND BALANCE - Beginning of year	<u>637,103</u>	<u>394,349</u>	<u>1,031,452</u>
FUND BALANCE - End of year	<u>\$ 725,459</u>	<u>\$ 351,846</u>	<u>\$ 1,077,305</u>

See accompanying notes to financial statements



CITY OF BRONSON  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	45,853
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	29,938
Depreciation expense	(38,994)

Government funds report money loaned to another entity as an expense and repayments as income. The loan is reported in the statement of net assets as a long-term receivable. The repayment reduces the long-term receivable.

Increase in long-term receivables	38,140
Payments received on long-term receivables	(400)

Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.

Proceeds from debt obligations	-
Principal payments on debt obligations	15,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in the accrual for compensated absences	-
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Internal service funds are used by management to charge the cost of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Net change from internal service funds related to governmental activities	(5,832)
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Change in net assets of governmental activities	\$	<u>83,705</u>
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See accompanying notes to financial statements

**CITY OF BRONSON  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
ASSETS				
CURRENT ASSETS				
Cash	\$ 10,665	\$ 84,834	\$ 95,499	\$ 79,174
Investments	545,783	1,029,500	1,575,283	-
Accounts receivable	53,449	34,718	88,167	102
Due from other funds	-	-	-	-
Prepaid and other assets	<u>5,685</u>	<u>3,545</u>	<u>9,230</u>	<u>997</u>
Total current assets	615,582	1,152,597	1,768,179	80,273
NONCURRENT ASSETS				
Restricted assets	23,901	55,895	79,796	-
Capital assets, net of depreciation	<u>3,096,724</u>	<u>330,470</u>	<u>3,427,194</u>	<u>185,014</u>
Total noncurrent assets	<u>3,120,625</u>	<u>386,365</u>	<u>3,506,990</u>	<u>185,014</u>
Total assets	3,736,207	1,538,962	5,275,169	265,287
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	20,000	32,000	52,000	-
Accrued and other liabilities	12,043	9,121	21,164	4,508
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>744</u>
Total current liabilities	32,043	41,121	73,164	5,252
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>484,000</u>	<u>112,000</u>	<u>596,000</u>	<u>-</u>
Total liabilities	<u>516,043</u>	<u>153,121</u>	<u>669,164</u>	<u>5,252</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,592,724	186,470	2,779,194	185,014
Restricted for debt service	23,901	55,895	79,796	-
Unrestricted	<u>603,539</u>	<u>1,143,476</u>	<u>1,747,015</u>	<u>75,021</u>
Total net assets	<u>\$ 3,220,164</u>	<u>\$1,385,841</u>	<u>\$4,606,005</u>	<u>\$ 260,035</u>

See accompanying notes to financial statements

CITY OF BRONSON  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES,  
 AND CHANGES IN NET ASSETS  
 YEAR ENDED JUNE 30, 2008

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
OPERATING REVENUE				
Charges for services	\$ 331,732	\$ 223,942	\$ 555,674	\$ 146,828
OPERATING EXPENSES				
Operating and administrative	263,028	120,523	383,551	98,798
Depreciation	<u>137,068</u>	<u>29,726</u>	<u>166,794</u>	<u>62,775</u>
Total operating expenses	<u>400,096</u>	<u>150,249</u>	<u>550,345</u>	<u>161,573</u>
OPERATING INCOME (LOSS)	(68,364)	73,693	5,329	(14,745)
NONOPERATING REVENUE (EXPENSES)				
Property taxes	35,870	-	35,870	-
Investment income	20,006	43,315	63,321	2,057
Gain (Loss) on disposal of assets	-	-	-	6,856
Other revenue	11,366	13,487	24,853	-
Interest expense	<u>(26,412)</u>	<u>(9,646)</u>	<u>(36,058)</u>	<u>-</u>
Total nonoperating revenue (expense)	40,830	47,156	87,986	8,913
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(27,534)	120,849	93,315	(5,832)
NET ASSETS - BEGINNING OF YEAR	<u>3,247,698</u>	<u>1,264,992</u>	<u>4,512,690</u>	<u>265,867</u>
NET ASSETS - ENDING OF YEAR	<u>\$3,220,164</u>	<u>\$1,385,841</u>	<u>\$4,606,005</u>	<u>\$ 260,035</u>

See accompanying notes to financial statements

**CITY OF BRONSON  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2008**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 331,447	\$ 225,423	\$ 556,870	\$ -
Receipts for internal services	-	-	-	146,828
Payments to employees and suppliers	<u>(255,464)</u>	<u>(115,484)</u>	<u>(370,948)</u>	<u>(86,633)</u>
Net cash provided (used) by operating activities	75,983	109,939	185,922	60,195
Cash flows from non-capital financing activities				
Other receipts	10,861	13,486	24,347	-
Cash flows from capital and related financing activities				
Property taxes	35,870	-	35,870	-
Principal paid on debt	(20,000)	(32,000)	(52,000)	-
Interest paid on debt	(26,524)	(10,098)	(36,622)	-
Acquisition of capital assets	(53,141)	-	(53,141)	(15,870)
Proceeds from sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,956</u>
Net cash provided (used) by capital and related financing activities	(63,795)	(42,098)	(105,893)	(7,914)
Cash flows from investing activities				
Interest received on investments	<u>21,428</u>	<u>45,899</u>	<u>67,327</u>	<u>2,041</u>
Net increase (decrease) in cash	44,477	127,226	171,703	54,322
Cash and Cash Equivalents - Beginning of Year	<u>535,872</u>	<u>1,043,003</u>	<u>1,578,875</u>	<u>24,852</u>
Cash and Cash Equivalents - End of Year	<u>\$ 580,349</u>	<u>\$1,170,229</u>	<u>\$1,750,578</u>	<u>\$ 79,174</u>

See accompanying notes to financial statements

CITY OF BRONSON  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS - Continued  
 YEAR ENDED JUNE 30, 2008

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (68,364)	\$ 73,693	\$ 5,329	\$ (14,745)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	137,068	29,726	166,794	62,775
(Increase) decrease in:				
Accounts receivable	(286)	1,481	1,195	-
Other current assets	10,056	2,779	12,835	12,202
Increase (decrease) in:				
Accrued liabilities	(2,491)	2,260	(231)	(781)
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>744</u>
Net cash provided by (used for) operating activities	<u>\$ 75,983</u>	<u>\$ 109,939</u>	<u>\$ 185,922</u>	<u>\$ 60,195</u>

See accompanying notes to financial statements

CITY OF BRONSON  
FIDUCIARY FUNDS  
BALANCE SHEET  
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 5,522</u>
LIABILITIES	
Due to other governmental units	\$ -
Due to community project	5,343
Other liabilities	<u>179</u>
Total liabilities	<u>\$ 5,522</u>

See accompanying notes to financial statements



## **CITY OF BRONSON**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2008**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Bronson conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

#### **Reporting Entity**

The City of Bronson is incorporated under the provisions of the Home Rule Act of the State of Michigan. The City of Bronson operates under a Council - Manager form of government and provides the following services as authorized by its charter: Public safety (police, fire, and inspections), highways and streets, public utilities, sanitation, health and social services, culture, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. There are no component units to be included in these financial statements.

**Basis of Accounting - Government-Wide Financial Statements** - The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Basis of Accounting - Fund Financial Statements** - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- \* Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- \* Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

The City reports the following major funds:

**General Fund** - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

**Enterprise Funds**

**Water Supply System Fund** - To account for user charges and for operating expenses and debt service of the City's water system.

**Sewage Disposal System Fund** - To account for user charges and for operating expenses and debt service of the City's sewer system.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

**Governmental Fund** - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition** - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

**Expenditure Recognition** - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the governmental fund types of the City:

**General Fund** - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Proprietary Funds** - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the proprietary fund types of the City:

**Enterprise Funds** - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**Internal Service Funds** - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.

**Fiduciary Funds (Not Included in Government-Wide Financial Statements)** - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

**Agency Funds** - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Budgets and Budgetary Accounting** - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- \* Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- \* Public hearings are conducted at the City hall to obtain public comments.



**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- \* Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Council. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- \* All budget appropriations lapse at the end of the year.
- \* Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

**Deposits and Investments** - Statutes authorize the primary government and component units to invest in the following:

- \* In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- \* In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- \* In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- \* In United States government of federal agency obligation repurchase agreements.
- \* In banker's acceptances of United States banks.
- \* In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- \* In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Receivables and Payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year of the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Restricted Cash and Cash Equivalents** - Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**Capital Assets and Depreciation** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

	Depreciable <u>Life-Years</u>
Land improvements	15-40
Streets	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

**Compensated Absences** - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources while the proprietary funds report the liability as it is incurred.

**Long-Term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Fund Equity** - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and investments	\$ 2,764,128
Restricted assets	79,796
Statement of Fiduciary Net Assets:	
Cash	<u>5,522</u>
Total	<u>\$ 2,849,446</u>
Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 323,796
Certificates of deposit	2,492,400
United States Federal Agency obligation repurchase agreement	33,000
Cash on hand	<u>250</u>
Total	<u>\$ 2,849,446</u>

**Deposits** - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,841,772. Of that amount, approximately \$1,366,204 was covered by federal depository insurance and \$1,475,568 was uninsured and uncollateralized.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 95 percent due from other governments and 5 percent accounts receivable. Business-type activities receivables are 98 percent due from customers and 2 percent accrued interest receivable.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of -0-.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at June 30, 2008:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
		Motor Pool	\$ 744
<u>Due from/to other funds</u>		Local Street Fund	16,000
		Major Street Fund	<u>1,700</u>
General Fund	<u>\$ 18,444</u>	Total	<u>\$ 18,444</u>

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued**

Transfers consisted of the following for the year ended June 30, 2008:

Fund	Transfers Out	Fund	Transfers In
General	\$ 52,000	Fire Sinking	\$ 10,000
		Local Street	42,000
			52,000
Major Street	30,400	Local Street	30,400
Cemetery			
Perpetual Care	10,100	Cemetery Fund	10,100
Total Primary			
Government	\$ 92,500		\$ 92,500

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 5 - LONG-TERM RECEIVABLE**

On May 15, 2008, the City of Bronson loaned the Bronson Community Foundation \$38,140 from the Community Development Fund for the purpose of improvements to a building. The loan is non-interest bearing and collectible in monthly installments of \$200 through June 15, 2024.

Long-term receivable at June 30, 2008 \$ 37,740

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 400,499	\$ -	\$ -	\$ 400,499
Capital assets, being depreciated:				
Land improvements	96,344	-	-	96,344
Buildings and improvements	616,830	19,912	-	636,742
Machinery and equipment	737,979	25,897	20,458	743,418
Vehicles	333,493	-	37,310	296,183
Streets	<u>482,796</u>	<u>-</u>	<u>-</u>	<u>482,796</u>
Subtotal	2,267,442	45,809	57,768	2,255,483
Accumulated depreciation				
Land improvements	25,049	3,854	-	28,903
Buildings and improvements	332,160	13,526	-	345,686
Machinery and equipment	588,862	37,687	19,358	607,191
Vehicles	249,127	27,392	37,310	239,209
Streets	<u>154,925</u>	<u>19,311</u>	<u>-</u>	<u>174,236</u>
Subtotal	<u>1,350,123</u>	<u>101,770</u>	<u>56,668</u>	<u>1,395,225</u>
Net capital assets being depreciated	<u>917,319</u>			<u>860,258</u>
Net capital assets	<u>\$ 1,317,818</u>			<u>\$ 1,260,757</u>

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 6 - CAPITAL ASSETS - Continued

	Balance July 1, 2007	Additions	Disposals/ Transfers	Balance June 30, 2008
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Capital assets, being depreciated:				
Sewage disposal system	5,777,274	53,141	22,579	5,807,836
Water supply System	<u>1,000,530</u>	<u>-</u>	<u>4,540</u>	<u>995,990</u>
Subtotal	6,777,804	53,141	27,119	6,803,826
Accumulated depreciation				
Sewage disposal system	2,599,623	137,068	22,579	2,714,112
Water supply System	<u>651,989</u>	<u>29,726</u>	<u>4,540</u>	<u>677,175</u>
Subtotal	<u>3,251,612</u>	<u>166,794</u>	<u>27,119</u>	<u>3,391,287</u>
Net capital assets being depreciated	<u>3,526,192</u>			<u>3,412,539</u>
Net capital assets	<u>\$ 3,540,847</u>			<u>\$ 3,427,194</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 64,243
Public safety	7,568
Public works	23,952
Parks and recreation	<u>6,007</u>

Total \$ 101,770

Business-type activities:

Sanitary Sewer	\$ 137,068
Water	<u>29,726</u>

Total \$ 166,794



**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 7 - LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
<b>Governmental Activities</b>					
General obligation bonds	\$ 90,000	\$ -	\$ 15,000	\$ 75,000	\$ 15,000
Compensated absences	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>-</u>
	120,000	-	15,000	105,000	15,000
<b>Business-Type Activities</b>					
General obligation bonds	480,000	-	12,000	468,000	12,000
Revenue bonds	<u>220,000</u>	<u>-</u>	<u>40,000</u>	<u>180,000</u>	<u>40,000</u>
	<u>700,000</u>	<u>-</u>	<u>52,000</u>	<u>648,000</u>	<u>52,000</u>
Total Primary Government Long-Term Debt	<u>\$ 820,000</u>	<u>\$ -</u>	<u>\$ 67,000</u>	<u>\$ 753,000</u>	<u>\$ 67,000</u>

Long-term debt payable at June 30, 2008, consisted of the following individual issues:

**Governmental Activities**

\$190,000 - 1997 Michigan Transportation Fund Bonds, due in annual installments of \$5,000 to \$20,000 through October 1, 2011; interest at rates ranging from 4.1% to 5.6%	\$ 75,000
Long-term compensated absences	<u>30,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 105,000</u>

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 7 - LONG-TERM DEBT - Continued**

**Business-Type Activities**

\$590,000 - 1993 Sewage Disposal System Improvement Bonds, due in annual installments of \$5,000 to \$23,000 through April 1, 2033; interest at 5.0%	\$ 468,000
\$500,000 - 1997 Water Supply and Sewage Disposal System Bonds, due in annual installments of \$20,000 to \$50,000 through April 1, 2012; interest at rates ranging from 4.35% to 5.65%	<u>180,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>648,000</u>
Total Primary Government Long-Term Debt	<u><u>\$ 753,000</u></u>

**Debt Service Requirements**

The annual requirements to service all debt outstanding as of June 30, 2008 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 15,000	\$ 3,739	\$ 18,739
2010	20,000	2,780	22,780
2011	20,000	1,675	21,675
2012	<u>20,000</u>	<u>560</u>	<u>20,560</u>
Total	<u><u>\$ 75,000</u></u>	<u><u>\$ 8,754</u></u>	<u><u>\$ 83,754</u></u>

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 7 - LONG-TERM DEBT - Continued**

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 52,000	\$ 33,443	\$ 85,443
2010	58,000	30,642	88,642
2011	58,000	27,495	85,495
2012	64,000	24,885	88,885
2013	14,000	20,800	34,800
2014-2018	84,000	92,350	176,350
2019-2023	96,000	70,150	166,150
2024-2028	108,000	44,850	152,850
2029-2033	<u>114,000</u>	<u>17,200</u>	<u>131,200</u>
Total	<u>\$ 648,000</u>	<u>\$ 361,815</u>	<u>\$ 1,009,815</u>

**NOTE 8 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 9 - RETIREMENT PLAN**

Effective July 1, 1996, the City established a defined contribution retirement plan which covers substantially all City employees except police officers. The City contributes 5% of compensation. For the year ended June 30, 2008, pension expense was \$26,004.

Effective July 1, 1997, the City's police officers began participating in an agent multi employer-defined pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. For the year ended June 30, 2008, pension expense was \$15,919.

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 10- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis.

During the year ended June 30, 2008, the City incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

**REQUIRED SUPPLEMENTAL INFORMATION**

CITY OF BRONSON  
REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes	\$ 696,849	\$ 707,318	\$ 707,392	\$ 74
Licenses and permits	250	154	142	(12)
Intergovernmental	312,341	302,395	310,343	7,948
Charges for services	19,670	20,853	20,963	110
Fines and forfeits	10,500	21,766	22,722	956
Miscellaneous	<u>39,865</u>	<u>47,008</u>	<u>48,666</u>	<u>1,658</u>
Total revenues	1,079,475	1,099,494	1,110,228	10,734
EXPENDITURES				
General government	224,136	205,845	203,734	2,111
Public safety	589,456	546,950	549,430	(2,480)
Public works	156,979	171,587	164,771	6,816
Parks and recreation	<u>57,064</u>	<u>50,413</u>	<u>51,937</u>	<u>(1,524)</u>
Total expenditures	<u>1,027,635</u>	<u>974,795</u>	<u>969,872</u>	<u>4,923</u>
Excess (deficiency) of revenues over expenditures	51,840	124,699	140,356	15,657
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(51,840)</u>	<u>(52,000)</u>	<u>(52,000)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	-	72,699	88,356	15,657
FUND BALANCE - Beginning of year	<u>637,103</u>	<u>637,103</u>	<u>637,103</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 637,103</u>	<u>\$ 709,802</u>	<u>\$ 725,459</u>	<u>\$ 15,657</u>

See accompanying notes to financial statements

## OTHER SUPPLEMENTAL INFORMATION

CITY OF BRONSON

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2008

	Major <u>Street</u>	Local <u>Street</u>	Fire <u>Sinking</u>	<u>Cemetery</u>
ASSETS				
Cash	\$ 29,229	\$ 57,332	\$117,314	\$ 22,018
Investments	-	-	19,502	-
Accounts receivable	18	73	151	27
Due from other funds	-	-	-	-
Due from other governments	20,374	7,171	-	-
Prepaid and other assets	<u>3,070</u>	<u>2,984</u>	<u>-</u>	<u>482</u>
Total assets	<u>\$ 52,691</u>	<u>\$ 67,560</u>	<u>\$136,967</u>	<u>\$ 22,527</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accrued and other liabilities	\$ 759	\$ 642	\$ -	\$ 1,378
Due to other funds	<u>1,700</u>	<u>16,000</u>	<u>-</u>	<u>-</u>
Total liabilities	2,459	16,642	-	1,378
FUND BALANCE				
Unreserved - undesignated	<u>50,232</u>	<u>50,918</u>	<u>136,967</u>	<u>21,149</u>
Total liabilities and fund balance	<u>\$ 52,691</u>	<u>\$ 67,560</u>	<u>\$136,967</u>	<u>\$ 22,527</u>



<u>Cemetery Redevelopment Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Economic Development Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 29,702	\$ 13,794	\$ 22,996	\$ 292,385
12,509	13,501	-	45,512
38	18	22	347
-	-	-	-
-	-	-	27,545
-	-	-	6,536
<u>\$ 42,249</u>	<u>\$ 27,313</u>	<u>\$ 23,018</u>	<u>\$ 372,325</u>

\$ -	\$ -	\$ -	\$ 2,779
-	-	-	17,700
-	-	-	20,479
<u>42,249</u>	<u>27,313</u>	<u>23,018</u>	<u>351,846</u>
<u>\$ 42,249</u>	<u>\$ 27,313</u>	<u>\$ 23,018</u>	<u>\$ 372,325</u>

CITY OF BRONSON  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
REVENUES				
Intergovernmental	\$ 124,415	\$ 43,763	\$ -	\$ -
Charges for services	-	-	-	5,298
Miscellaneous	<u>15,122</u>	<u>514</u>	<u>5,849</u>	<u>582</u>
Total revenues	139,537	44,277	5,849	5,880
EXPENDITURES				
Highways and streets	113,372	114,621	-	-
Community enrichment, development and services	-	-	-	13,691
Debt service	<u>7,877</u>	<u>12,075</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>121,249</u>	<u>126,696</u>	<u>-</u>	<u>13,691</u>
Excess (deficiency) of revenues over expenditures	18,288	(82,419)	5,849	(7,811)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	72,400	10,000	10,100
Operating transfers out	<u>(30,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(30,400)</u>	<u>72,400</u>	<u>10,000</u>	<u>10,100</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(12,112)	(10,019)	15,849	2,289
FUND BALANCE - Beginning of year	<u>62,344</u>	<u>60,937</u>	<u>121,118</u>	<u>18,860</u>
FUND BALANCE - End of year	<u>\$ 50,232</u>	<u>\$ 50,918</u>	<u>\$136,967</u>	<u>\$ 21,149</u>

Cemetery Redevelopment Fund	Cemetery Perpetual Care	Economic Development Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 168,178
-	-	-	5,298
<u>2,790</u>	<u>3,396</u>	<u>3,561</u>	<u>31,814</u>
2,790	3,396	3,561	205,290
-	-	-	227,993
-	-	38,157	51,848
<u>-</u>	<u>-</u>	<u>-</u>	<u>19,952</u>
<u>-</u>	<u>-</u>	<u>38,157</u>	<u>299,793</u>
2,790	3,396	(34,596)	(94,503)
-	-	-	92,500
<u>-</u>	<u>(10,100)</u>	<u>-</u>	<u>(40,500)</u>
<u>-</u>	<u>(10,100)</u>	<u>-</u>	<u>52,000</u>
2,790	(6,704)	(34,596)	(42,503)
<u>39,459</u>	<u>34,017</u>	<u>57,614</u>	<u>394,349</u>
<u>\$ 42,249</u>	<u>\$ 27,313</u>	<u>\$ 23,018</u>	<u>\$ 351,846</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the City Council  
City of Bronson

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)



Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the City, the hiring of accounting personnel capable of writing the City's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the City, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the City's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the City Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 and Finding 2007-2 to be a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, others within the organization, the City Council and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

September 10, 2008

*Norman E. Puckett, P.C.*





Norman & Paulsen, P.C.

*Certified Public Accountants*

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## REQUIRED COMMUNICATION TO THE CITY OF BRONSON IN ACCORDANCE WITH PROFESSIONAL STANDARDS

September 10, 2008

To the City Council  
City of Bronson, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bronson for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 23, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bronson are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

### Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 12, 2008.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

N



## Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Internal Control Matters

In planning and performing our audit of the financial statements of the City of Bronson, Michigan for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

The relatively small number of people involved in the accounting functions of the City makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.



Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot, by definition, be considered a part of the government's *internal* controls. This condition was caused by the City's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe that the deficiencies described above are material weaknesses.

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This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Norman E. Paulson, P.C.